

Changes in the Distribution of Top Marginal Tax Rates, 1958-2009

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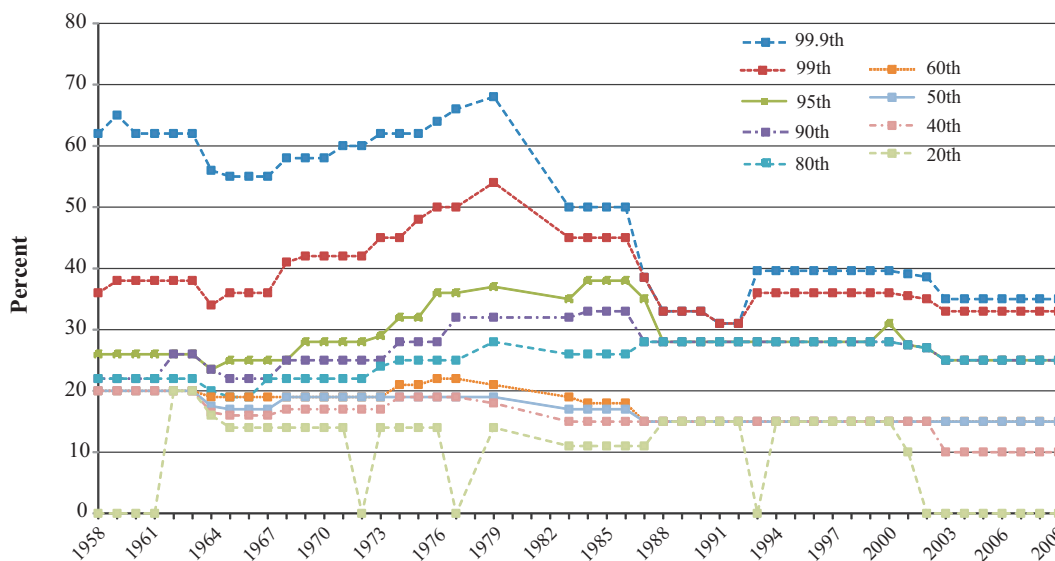
The statutory rate structure of the federal individual income tax — the number and width of brackets and the level of rates — has changed significantly over time. For example, between 1954 and 1963 there were 24 brackets (compared to six today) and the top rate was 91 percent, with the rates in 19 of the 24 brackets higher than the current top rate of 35 percent. In addition to changes in the statutory rate structure, the distribution of taxpayers across rates has changed over time due to changes in real income and, before 1985 when rate brackets began to be indexed, with inflation. With changes in both the statutory rate structure and the distribution of taxpayers across rates, how has the top statutory marginal tax rate changed at various percentile breaks over time?

To answer this question, we compiled data published by the IRS Statistics of Income Division on

the number of returns classified by the highest rate that applied to each return. The data cover all available years, 1958 through 2009 (the data were not published for 1978 and 1980-1982). We used these data to determine the top statutory marginal income tax rate that applied at various percentile breaks.

Although statutory rates were reduced substantially beginning in 1964, high inflation and unindexed tax brackets made top statutory marginal tax rates by 1979 higher at most percentile breaks than in any other year. Beginning with the 1981 tax cuts, statutory rates generally declined at most percentile breaks, with the notable exception of higher rates between 1993 and 2001 for the top 1 percent and top 0.1 percent. Over the entire 1958-2009 period, top statutory marginal tax rates fell at most percentile breaks, declining 5 percentage points at the median and substantially more at the 40th percentile break (a decline of 10 percentage points) and at the top 0.1 percent break (a decline of 27 percentage points). But both the 80th and 90th percentiles saw their top rate increase by 3 percentage points.

Top Statutory Marginal Tax Rate (Percent) at Various Percentile Breaks of Returns, 1958-2009



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